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C O N F I D E N T I A L SECTION 01 OF 02 BUDAPEST 000732

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DEPARTMENT PLEASE PASS TO NSC FOR ADAM STERLING

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TAGS: PGOV ECON HU

SUBJECT: CENTRIFUGAL FORCE: STRAIN WITHIN THE COALITION

REF: BUDAPEST 550

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶1. (C) Summary: Surveying the current state of play within the governing coalition, outgoing SZDSZ party president Gabor Kuncze told Ambassador Foley that there is perceptible distance - and potential conflict - between Prime Minister Gyurcsany and newly-elected SZDSZ leader Janos Koka. Kuncze believes Gyurcsany's ability to reach out to the public has been limited and his ability to maintain discipline within the MSZP significantly reduced, but he sees no obvious replacement around whom opposition can coalesce. He believes the differences within the coalition over health care reform are deep, and raised the possibility of the SZDSZ formally leaving the coalition. He emphasized, however, that the party would continue to vote with the MSZP in order to maintain a governing majority in practice in order to avoid a likely FIDESZ victory in early elections. End Summary.

LOSING CREDIBILITY INSIDE AND ACCESS OUTSIDE

¶2. (C) In a private meeting May 9, former SZDSZ party president Gabor Kuncze described serious divisions within the governing coalition and within the MSZP itself. He noted that the previous weekend's negotiations over health care reform between the MSZP and SZDSZ had reflected a fundamental difference of opinion over the way forward and revealed PM Gyurcsany's limited ability to keep his party in line. According to Kuncze, Gyurcsany personally agrees with the SZDSZ's proposal to introduce a multi-player health care system, but is unable to reach out to the public or to compel other MSZP power-brokers to follow his lead. (Note: Gyurcsany's public appearances have been marred by counter-demonstrations, including an egg-throwing crowd at his public appearance at a Budapest event May 9. The PM is now accompanied by umbrella-toting bodyguards at his public appearances. End Note.)

¶3. (C) Indeed, Kuncze believes Gyurcsany's position is deteriorating both internally and internationally. He suggested that the SZDSZ had initially underestimated the public and international impact of the PM's infamous "lies" speech last year. Combined with significant losses in the local elections and consequent reductions in their patronage network, MSZP members are "getting madder instead of getting over it." Kuncze also notes that Gyurcsany has not received a bilateral invitation in months - except for his trip to Russia. He believes that this may have contributed to Gyurcsany's "mistakes" on energy security.

NO ALTERNATIVES ... OR ALLIES

¶4. (C) Ultimately, Kuncze concludes that Gyurcsany's greatest asset may be the dearth of alternatives within the MSZP. Although potential rivals include Parliamentary Speaker Katalin Szili, Defense Minister Imre Szekeres, and

Minister of Labor Peter Kiss, none has the support to unseat Gyurcsany. "If there were a good alternative to Gyurcsany," he stated, "we would call for his replacement immediately."

¶15. (C) The debate over health care has also highlighted the distance between Gyurcsany and newly-elected SZDSZ president Janos Koka. Kuncze noted that the two had been all but inseparable, commenting that Gyurcsany never travelled or made a decision without Koka in the past. Those days, Kuncze indicated, are gone. Although he believes there is no element of personal animosity between Gyurcsany and Koka, he believes that the potential for conflict has grown now that there is "no friendship to smooth over differences of opinion." He believes these differences include a fundamental disagreement on transparency, where Koka has taken the lead in promoting reform.

#### THE PARTIES OR THE PARTY?

¶16. (C) Koka has problems of his own. Kuncze, who supported Koka's candidacy and was reportedly instrumental in lining up votes for the tie-breaker round of the SZDSZ party elections, believes Koka is still "a young man ... with an even younger girlfriend." In his view, Koka needs to make a clear commitment to the party's life over his own night life. Kuncze complained in particular about Koka's lack of preparedness for key events.

¶17. (C) He will also have to keep an eye on the SZDSZ executive committee, warns Kuncze. As a result of what he described as furious deal-making by Koka's opponent, MP Gabor Fodor, many of the committee's new members are not loyal to Koka's platform. They are, Kuncze believes, inexperienced, unsophisticated, and less able to provide Koka with the

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intellectual support he needs. (Note: In one possible response to offset the "mediocritization" of the executive committee is Koka's creation of an "SZDSZ cabinet," announced May 10 and intended to ensure the SZDSZ enters cabinet debates with a unified position. End Note.)

#### WALKING OUT ... BUT NOT FAR?

¶18. (C) Kuncze warns, however, that the SZDSZ's continued presence in the coalition should not be taken for granted. Echoing comments made by Hungarian Democratic Forum (MDF) leader Ibolya David, he regards Gyurcsany's approach as "more revenue enhancement than substantive reform," and suggested that the SZDSZ could leave the coalition if the impasse over health care continues. "Without this," Kuncze asked, "what do we have to show for being in the coalition?"

¶19. (C) That said, Kuncze hastened to add that the party would continue to vote with the MSZP in practice, if only to avoid early elections, which he believes would result in "FIDESZ winning a two-thirds majority." Indeed, his worst-case scenario is FIDESZ using such a majority to make constitutional changes, including the strengthening of the institution of the presidency ... and Orban's installation in the office.

¶110. (C) Comment: Long known as one of Hungary's sharpest - and sharpest-tongued - politicians, Kuncze is agreeing with a growing number of our contacts who see the PM as increasingly isolated and the coalition as increasingly unstable. With health care as an important litmus test for future - and likely harder - reforms, the impasse within the coalition does not bode well. Kuncze's suggestion that the SZDSZ would end its alliance with the MSZP in principle but maintain its association in practice is consistent with the party's tendency toward principled positions but also cognizant of the fact that early elections now would mean political extinction given their current poll numbers. Even without a formal break with the SZDSZ, however, Gyurcsany appears to be under siege from within and under attack from without. End

Comment.

FOLEY